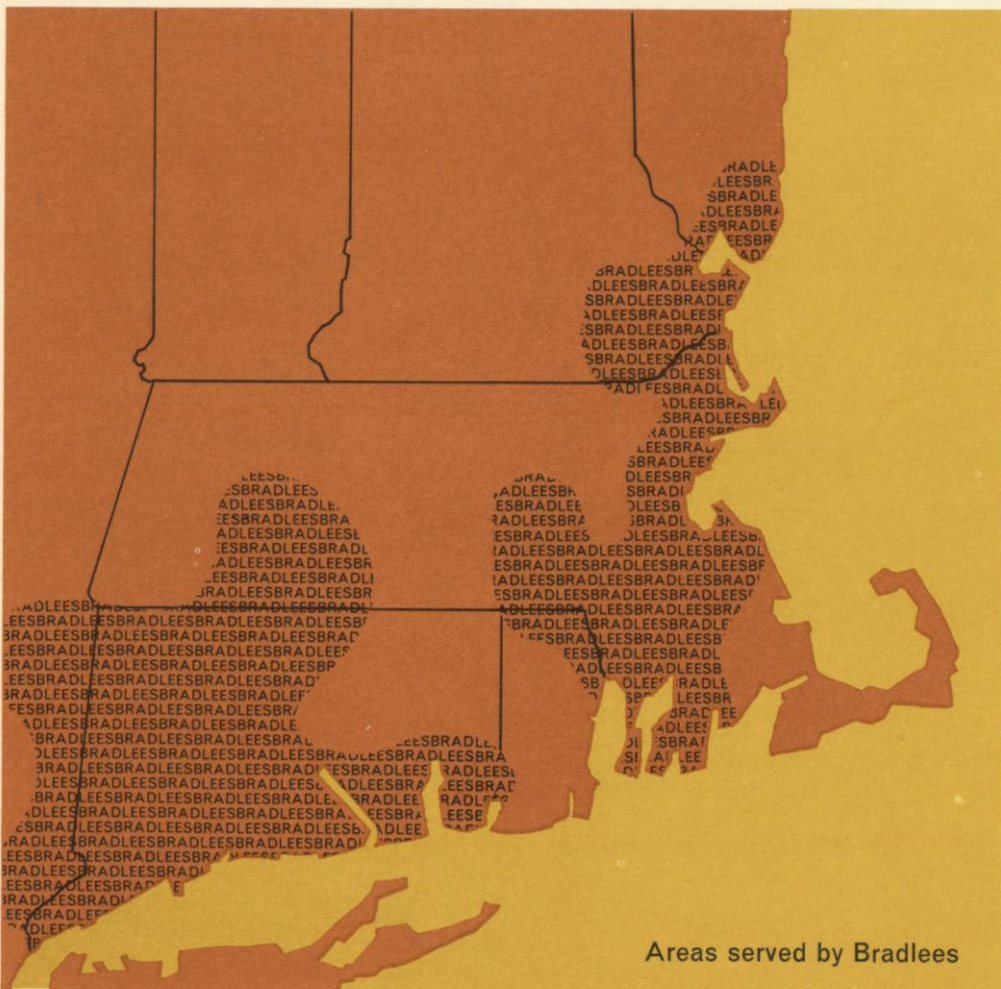
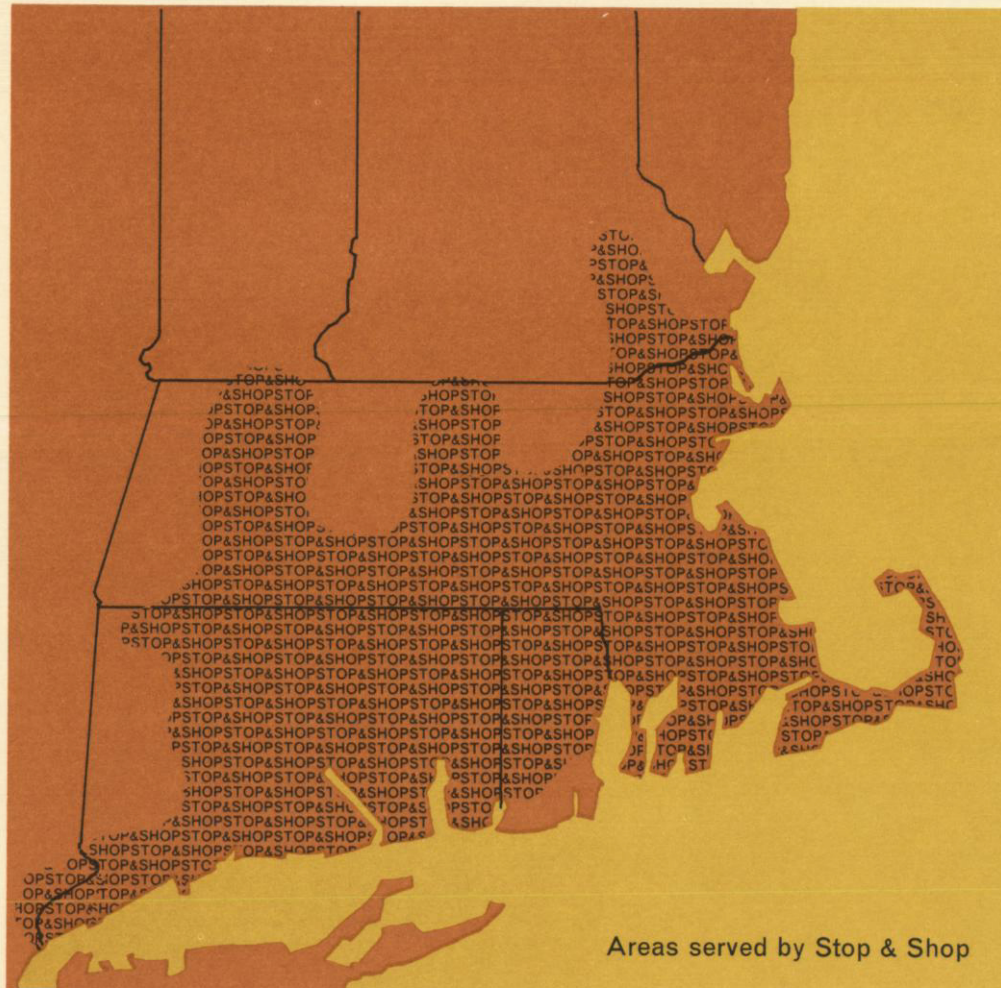


STOP & SHOP ANNUAL REPORT

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CORPORATION FILE

1964





Officers

Sidney R. Rabb
*Chairman of the
Board and Treasurer*

Joseph Rabinovitz
President

Irving W. Rabb
*Vice-President
and General Manager*

Norman S. Rabb
Senior Vice-President

Lloyd D. Tarlin
Financial Vice-President

Donald A. Gannon
Executive Vice-President

Charles R. Carroll, Jr.
Vice-President

Robert H. Kroeger
Vice-President

Arthur Norris
Vice-President

Michael F. O'Connell
Vice-President

Jacob Rabinovitz
Vice-President

Jack Solomon *
Vice-President

Richard F. Spears
Vice-President

Max E. Bernkopf
Clerk

Albert S. Frager
*Controller
and Assistant Clerk*

George P. Kane
Assistant Treasurer

Directors

William Applebaum

Max E. Bernkopf

Norman L. Cahners

Donald A. Gannon

Irving W. Rabb

Norman S. Rabb

Sidney R. Rabb

Jacob Rabinovitz

Joseph Rabinovitz

Sidney L. Solomon

Lloyd D. Tarlin

*Elected August 11, 1964

Stop & Shop Annual Report for the year ended June 27, 1964

Comparative Highlights

Sales

1964	1963
\$391,417,860	\$337,684,888

Earnings

Before taxes on income	\$ 7,561,033	\$ 6,313,095
After taxes on income	\$ 4,907,277	\$ 4,034,883
Cash dividends paid	\$ 1,173,475	\$ 1,139,356
Cash dividends per share40	.40
Stock Distribution	3%	3%
Reinvested in the business	\$ 3,733,802	\$ 2,895,527
% of net earnings to sales	1.25%	1.19%
Per share of stock now outstanding	1.66	1.37
Current Assets	\$ 35,083,620	\$ 31,555,142
Current Liabilities	\$ 17,000,129	\$ 16,519,733
Working Capital	\$ 18,083,491	\$ 15,035,409
Current Ratio	2.06	1.91
Shareholders' Equity	\$ 36,801,498	\$ 33,106,337
Food Stores opened	4	14
Food Stores closed	4	9
Food Stores in operation year end	143	143
Self-service department stores opened	6	7
Self-service department stores in operation year end	23	17
Employees	11,204	11,346

Transfer Agents

The First National Bank of Boston
Bankers Trust Company of New York

Registrars of Stock

The National Shawmut Bank of Boston
Morgan Guaranty Trust Company of New York

Auditors Peat, Marwick, Mitchell & Co.

General Counsel

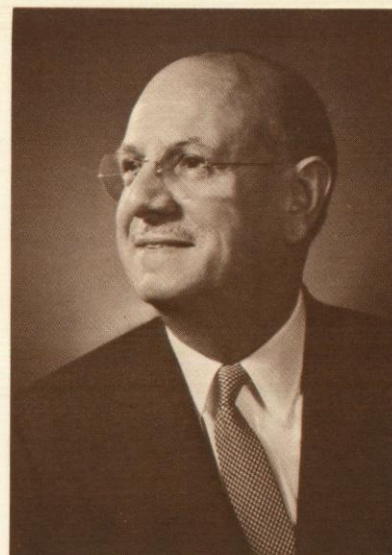
Sherin & Lodgen, Boston

General Offices

393 D Street, Boston 10, Massachusetts

*Shares Traded on Boston Stock Exchange
and American Stock Exchange*

To Our Shareholders, Employees and Friends



Sidney R. Rabb
Chairman of the Board

The past fiscal year was one of substantial accomplishment at Stop & Shop. Both sales and earnings reached the highest point in the history of our company. Sales improvement resulted from gains in existing stores as well as the added sales of new stores and new departments. Earnings increased in spite of aggressive competitive price and promotional activities and constantly rising costs of operation. Our Bradlees Division of self-service department stores is now operating on a profitable basis.

Sales and Earnings

Sales for the fiscal year were \$391,417,860 compared with \$337,684,888 in 1963, a gain of 15.9%. These sales include only the sales of the departments we operate ourselves in our Bradlees stores. Net income after taxes this year rose 21.6% to \$4,907,277, equal to \$1.66 per share, compared with \$4,034,883 and \$1.37 per share in 1963, computed for both years on the basis of 2,955,336 shares outstanding on June 27, 1964. We have elected to reflect currently the entire investment credit authorized under the 1964 amendment to the Revenue Act, which amounted to \$325,000, and have also included in income for this year that portion of last year's investment credit that was deferred, amounting to \$222,000. The substantial preopening expenses of stores opened this year have been charged to current operations as in the past.

Distributions to Shareholders

Four quarterly dividends of 10¢ per share were paid to shareholders during the year. In addition, a 3% stock dividend was distributed on November 1, 1963. On August 11, 1964, your directors declared a 3% stock dividend payable on November 2, 1964 to shareholders of record on October 2, 1964. This is the thirteenth consecutive year that the company has supplemented its conservative cash dividend by a stock dividend or other stock distribution. This policy has permitted the company to retain a substantial portion of its annual earnings as a source of funds to finance future growth.

Retail Store Status

During the fiscal year just ended, we opened 4 food stores and 6 self-service department stores bringing the total number of stores in operation to 143 food stores and 23 self-service department stores. In addition, major remodelings of our store facilities have been made in 9 locations and numerous alterations and equipment changes in other locations.

Retailing is dynamic and changing from year to year. It is the responsibility of management to keep abreast of the latest developments and through study and experimentation to keep our company progressive. We are presently operating the following types of stores:

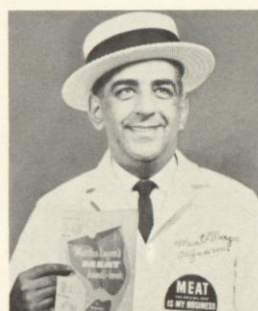
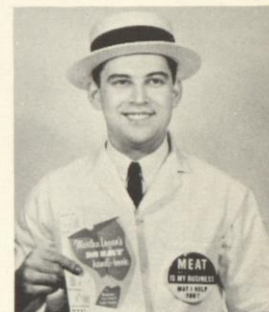
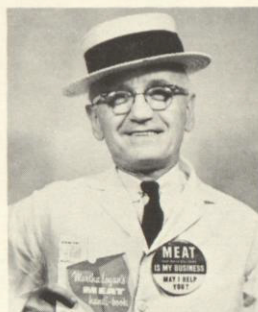
- 119 conventional Stop & Shop and 7 Tedeschi supermarkets which constitute the major portion of our business;
- 11 Bradlees discount food stores;
- 5 discount food departments in Arlan's, G.E.M. International, and Ann & Hope, a discount department store;
- 23 Bradlees self-service department or mercantile stores;
- and we have converted the Stop & Shop market in Waterbury to a food discount store.

We are accumulating experience in these various forms of retail distribution, coupled with intensive research on a continuing basis into customer buying habits and competitive moves in our trading area. This provides us with valuable tools to evaluate what moves to make and where to make them in our current location strategy.

Over the last decade, we have built all new distribution facilities, closed many outmoded stores and opened new modern food

February was "Red Carpet Month" throughout the chain. Irving W. Rabb, General Manager, rolled out the first carpet, symbol of Stop & Shop's continuing customer courtesy campaign.

Stop & Shop brought back the old-fashioned butcher, complete with straw hat, during our April "Meat Managers Month" promotion. Customers were encouraged to discuss their meat planning problems with the meat manager.



markets. Of the 143 food stores in operation at the end of the fiscal year, 123 were opened or acquired in the last ten years. Of the 23 Bradlees self-service department stores, the oldest was opened six years ago and 17 are less than three years old. About 51% of our present food volume is accounted for in the 70 food stores we have opened in the last five years. It is truly hard to believe

that your company, although forty-nine years old, is essentially a new company with a new look in the last decade. Existing stores have been modernized, refurbished, refixedtured and in many cases enlarged to meet the needs of each individual store's requirements.

Service and Manufacturing Facilities

During the year, we completed the relocation of Bradlees mercantile offices and distribution center to Boston. These added facilities for distribution and the proximity to our Boston headquarters have contributed to greater efficiency in distribution and economies from a continuing and gradual integration of many clerical and administrative functions with those of Stop & Shop.

An addition of 22,000 square feet to our Boston headquarters provided the space needed for our general office requirements. Our machine accounting systems are being converted to data processing computers for many functions of both food and mercantile operations. We are now planning many sophisticated data processing procedures made possible by advanced machine development that will enable us to do many jobs much faster as well as to develop new information systems and services for our business that should prove most valuable in the years ahead.

An addition has been completed to our commissary at our Readville Distribution Center to provide space for the production of potato chips and additional area for the increasing production of our other products.



Modern warehousing facilities are well stocked with thousands of different items. Constantly changing customer preferences necessitate an efficient up-to-date inventory control system.

Bradlees Mercantile Stores

In May 1961, we acquired six Bradlees self-service department stores in which all but the children's department were operated by licensees. We believed that the concept of mass merchandising on a self-service basis represented a valid development in retail distribution that would appeal to the public and complement our mass merchandising food operations. Since the original acquisition, we have increased the number of stores to twenty-three. We have taken over various additional departments so that we now operate about 75% of the store's volume in the newer stores. As licenses expire in older stores, we will gradually take over those departments which we now operate ourselves in the newer stores.

Over this short period of time, we have developed a young and aggressive organization of qualified specialists to manage and merchandise this division. The impact of organizational expenses and heavy proportionate new store opening costs are behind us. It is gratifying to report that our increased acceptance has reflected itself in gains in both sales and earnings from year to year in identical stores.

Since the close of the fiscal year, a new Bradlees mercantile store has been opened in Fall River, Massachusetts, adjacent to an existing Stop & Shop market. We are remodeling, refixturing and adding approximately 22,000 square feet to the Bradlees mercantile store in New London, Connecticut to be completed in ample time for the Christmas season. We believe there is opportunity for further development for this division of our business.



A typical Bradlees self-service department store interior shows the variety and expansiveness of the company-operated children's department.

Bradlees domestics departments offer the customer an extensive selection of quality items at surprisingly low discount prices.

"Fashions with a Flair" appear throughout our Bradlees fashions departments. Popular priced lines provide style conscious shoppers with a complete selection.



Real Estate Operations

We have continued the format adopted last year of separating the results of our real estate operations from our merchandising operations on our financial statement.

Our real estate subsidiaries constructed the addition to our general office, the addition to our commissary and several stores for other tenants next to Stop & Shop markets. Since the close of the fiscal year, they have completed the construction of a Bradlees self-service department store adjacent to the Stop & Shop market in Fall River, Mass.

Stop & Shop has, over the years, believed that substantial equities could be generated for its shareholders through real estate ownership. Land has been acquired by our wholly-owned subsidiaries and buildings erected to the company's specifications for stores, offices and distribution centers. Net leases from the parent company have enabled our real estate companies to obtain approximately 100% financing from institutional investors at rentals as low or lower than could otherwise be obtained. The rents received are sufficient to enable the real estate companies to meet the service charges for principal and interest on their debt. Within the next few years, loans on some properties will be fully discharged and as the years pass, further loans will become fully paid. As this occurs, the cash flow of the consolidated companies will be enhanced by these funds no longer needed to service loans. Each year the interest charge to the company on each individual loan declines as the principal is reduced — this reduces occupancy cost or offsets rising property taxes. As a loan is reduced, equity increases. Ownership gives management greater flexibility in remodeling or enlarging as well as an opportunity to add other tenants. On the other hand, ownership also permits the company to close, relocate or dispose of outmoded locations at will, often at a profit.



Newest addition to the growing Bradlees department store division is the Fall River, Massachusetts unit which opened August 12.



Stop & Shop supermarkets continue as the mainstay of your constantly expanding and diversifying company. Typical of our modern facilities is the Lynnway, Massachusetts supermarket.

Bradlees discount food outlets continue to fill the requirements of a large segment of today's shopping public interested in certain economies accomplished by eliminating "frills".



Modernization of existing facilities is a continuing program at Stop & Shop. Recently, the Natick, Massachusetts supermarket held a giant remodel celebration. On hand were (left to right) Irving W. Rabb, general manager; Gus Saunders, radio-TV personality; Sidney R. Rabb, chairman of the board; Norman S. Rabb, senior vice president and Arthur Kay, Natick store manager.



Manufacturing

Our manufacturing division has continued to grow. We presently operate the following facilities for food processing: Bakery — complete variety of bread, cake, and pastry; Dairy — milk and several varieties of fruit drinks; Coffee — blending, roasting, and packaging our private label coffees; Cheese packaging — processing of various bulk cheeses into consumer-size packages; Commissary — preparation of a variety of salads and prepared foods for sale in service appetizer departments and in consumer packages for self-service selling; preparation of private label mayonnaise and salad dressing.

Since the close of the fiscal year, we have started production of potato chips and expect to have complete distribution in all stores shortly.

In each of these facilities, we produce products of high quality and of a type best suited for the market in which we operate at attractive prices. This method of product control provides our company with a valuable merchandising asset as well as a satisfactory return on the capital invested.

Capital Requirements

Substantial additional working capital is being generated internally from retained earnings, depreciation and amortization. The company will determine before December 31, 1964 if it will require the \$5,000,000 of additional funds still available on a standby basis.

We Plan Ahead

Since the close of the fiscal year, in addition to the Fall River Bradlees mercantile store already mentioned, we have opened a discount food department in the Ann & Hope department store in Cumberland, Rhode Island. Further commitments for locations for food and mercantile stores are in various stages of negotiation and planning. Great emphasis is being placed on remodeling, renovation and enlargement of existing food and mercantile stores, all of which is expected to be completed within the current fiscal year.

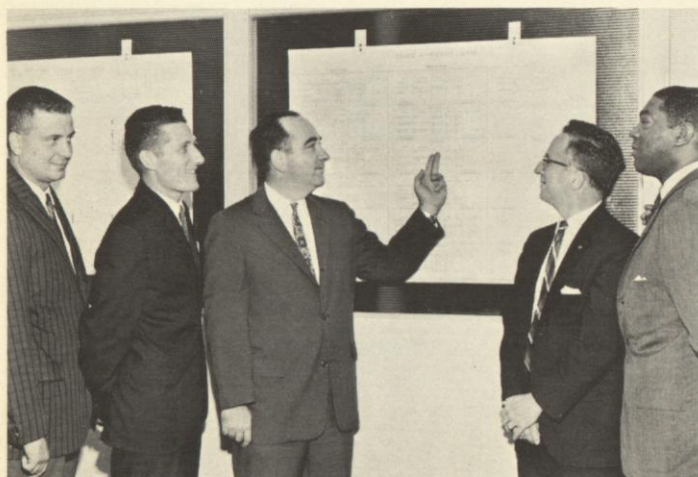
In order to be supplied properly with information on which to act, our Location Research Department, assisted by outside consultants, has completed an exhaustive study and analysis of the

total food and mercantile business in our area and the relative position and opportunities for us in each segment. This information is of great value to us in plotting our course of action for future locations.

It is essential that we constantly review the physical facilities and condition of all of our stores. The passage of time and the innovations that arise in both merchandising and operations require constant and continuous investment to maintain our stores at the desired level. In many stores, additional sales area is to be added to handle our volume of business more effectively.

Food and mercantile retailing continues to be in a growth position as the booming population adds millions of new families each year. Stop & Shop, among the nation's leading mass retailers, looks forward to sharing in this prosperity by maintaining and even improving its industry position.

Bradlees department store executives study the training manual at a recent classroom session. An intensive training program has been developed in an effort to better equip supervision for increased responsibilities. Looking over the shoulder of Bradlees Stores Superintendent Richard Shuman are (left to right) Ike Sobel, Training; George Clayton, Personnel; and Irving Belansky, Zone Manager.



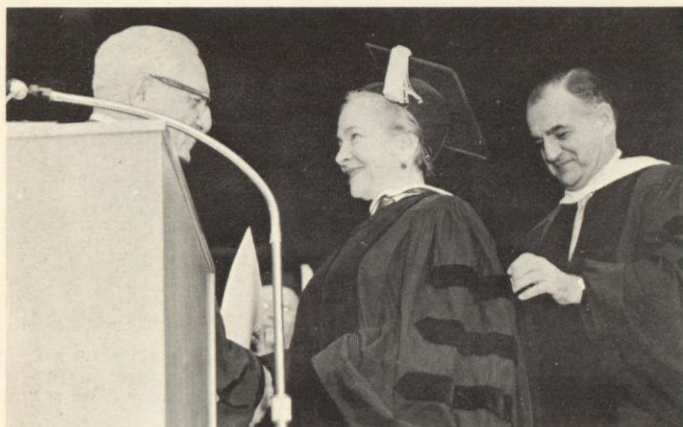
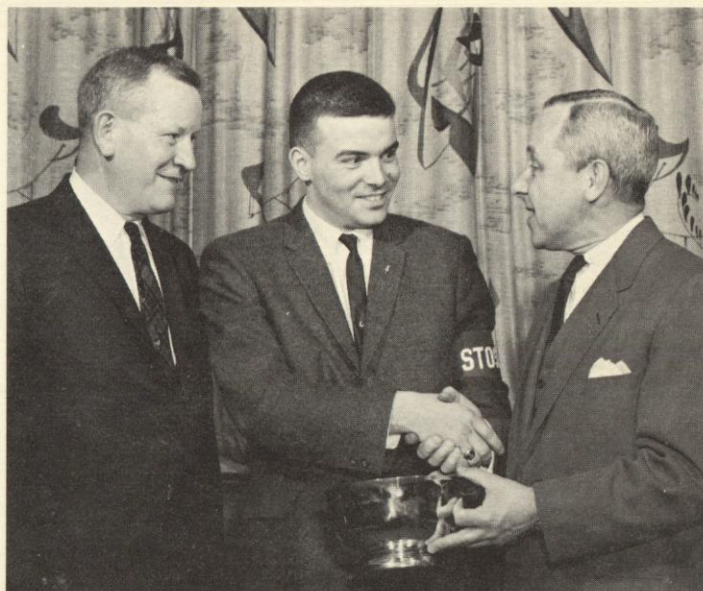
Director of Personnel, L. Renshaw Fortier, points out store location to his training department, (l to r) Charles Ripley, Paul Hogan, Mr. Fortier, Morris Miller and Lloyd Godfrey.



Bradlees General Manager, Jack Solomon, explained the division's operating philosophy to store and field supervision at a classroom session.



Stop & Shop vice president Charles R. Carroll, Jr. (right) presents annual Stop & Shop award to Thomas Kelly, University of Massachusetts student. Looking on is Dean Fred P. Jeffrey of the University's Food Distribution Program.



Norman S. Rabb, Stop & Shop's senior vice president, was re-elected chairman of the board of trustees of Brandeis University. At the University's graduation ceremonies in June, Mr. Rabb presented an honorary degree to Miss Helen Hayes. Dr. Abram L. Sachar, Brandeis' president, congratulates Miss Hayes.

Stop & Shop's "Checker of the Year", Martha Carney, receives her crown from last year's champion, Shirley Cummings. Miss Carney, selected from the chain's hundreds of checkers, won the title with accuracy and speed at the cash register, her "Red Carpet" courtesy, and her genuine warmth.



Stop & Shop's Malden store manager, Philip A. Petroni, (left) presents wrist watch to Patricia E. McCoy, as motor vehicle inspector Anthony J. Melarangni looks on. Young Pat won the award in the chain's "Color Me Safe" contest designed to focus the public's attention on pedestrian safety.





In June, Stop & Shop's Chairman of the Board, Sidney R. Rabb, was enrolled among the honorary doctors of Boston College. He was proclaimed a Doctor of Humane Letters by His Eminence Richard Cardinal Cushing who presented the honor on behalf of the President and trustees of the college.

People

Your management has long believed strongly in the concept that people are our most important asset. During this past year, our training program has been broadened at all levels of our business. In order to improve our effectiveness in all divisions, to prepare our people for greater responsibilities and for our future expansion, we have technical training programs and management development programs on a continuous basis.

To encourage our people to continue their self-development, we have instituted a Tuition Refund program, whereby ambitious employees may attend night college and receive reimbursement of half the tuition upon completion of their courses. The response from the employees and their course results for the past school year have been excellent. A special home study program will be made available to all administrative personnel in the very near future.

Our people, particularly at the store level, have been encouraged to participate in local community affairs and to stimulate community activities in and around each store location. It is our desire to make each store a center of interest as well as the best place to shop.

We wish to express our appreciation to our family of over 11,000 people, full and part-time, whose dedication and combined efforts have made the results of this past year possible.

Sidney R. Rabb

Chairman of the Board



New members of Stop & Shop's Twenty-Five Year Club are (l to r) Connor Maguire, Leah Krips, and Charles Keith. At this year's annual banquet, 27 new members were added, making a total of 264 employees who have been with the company over 25 years.

IN MEMORIAM

ARTHUR L. SHERIN

General Counsel 1937 - 1964

Director 1949 - 1964



A close associate and devoted friend.

STOP & SHOP, INC., AND

CONSOLIDATED

June 27, 1964

figures as

ASSETS	1964	1963
Current Assets:		
Cash	\$ 3,333,276	\$ 5,105,836
U. S. Treasury Bills, at cost	230,208	—
Accounts receivable, less allowance for doubtful accounts	2,550,150	3,468,741
Inventories, at the lower of cost or market	28,504,512	22,507,416
Prepaid expenses	465,474	473,149
Total current assets	<u>35,083,620</u>	<u>31,555,142</u>
Investments in and advances to wholly-owned realty subsidiaries not consolidated, at net equity value (note 1)	4,251,182	5,427,746
Fixed Assets, At Cost (excluding fully-depreciated assets):		
Fixtures, machinery and equipment	27,972,527	25,788,197
Less accumulated depreciation	<u>9,102,683</u>	<u>7,722,300</u>
	<u>18,869,844</u>	<u>18,065,897</u>
Leasehold improvements, at cost, less accumulated amortization	<u>6,903,514</u>	<u>6,243,375</u>
Net fixed assets	25,773,358	24,309,272
Other Assets:		
Notes receivable, investments, etc., at cost	1,088,754	791,180
Deferred charges	189,095	198,654
Total other assets	<u>1,277,849</u>	<u>989,834</u>
	<u>\$66,386,009</u>	<u>\$62,281,994</u>

See accompanying notes to financial statements.

CONSOLIDATED SUBSIDIARIES**BALANCE SHEET**

(with comparative
of June 29, 1963)

LIABILITIES	1964	1963
Current Liabilities:		
Accounts payable	\$13,449,596	\$12,860,514
Accrued expenses	3,550,533	2,982,023
Federal taxes on income, estimated, less U. S. Treasury Bills \$2,269,792, 1964 \$1,000,000, 1963.	<u>—</u>	<u>677,196</u>
Total current liabilities	<u>17,000,129</u>	<u>16,519,733</u>
 Deferred Federal taxes on income and investment credit (note 3)	 1,084,382	 1,155,924
 Long-Term Debt (note 4):		
Notes payable	11,500,000	11,500,000
 Stockholders' Equity:		
Capital stock of \$1 par value per share. Authorized 4,000,000 shares. Issued and outstanding 2,955,336 shares 1964, 2,870,502 shares 1963 (note 5)	2,955,336	2,870,502
Capital in excess of par value of capital stock	12,015,166	10,444,760
Retained earnings, exclusive of amounts capitalized through stock dividends (note 4)	<u>21,830,996</u>	<u>19,791,075</u>
Total stockholders' equity	<u>36,801,498</u>	<u>33,106,337</u>
	<u>\$66,386,009</u>	<u>\$62,281,994</u>

STOP & SHOP, INC. AND CONSOLIDATED SUBSIDIARIES **Consolidated Statement of Earnings and Retained Earnings**

Year ended June 27, 1964 (with comparative figures for the year ended June 29, 1963)

	1964	1963
Retail sales	\$391,417,860	\$337,684,888
Net earnings of wholly-owned realty subsidiaries (note 1)	1,090,833	1,114,001
Total	<u>392,508,693</u>	<u>338,798,889</u>
Cost and expenses:		
Cost of sales, operating and administrative expenses	380,804,523	328,926,997
Depreciation and amortization	3,485,986	2,939,725
Interest on borrowings other than mortgages.	657,151	619,072
	<u>384,947,660</u>	<u>332,485,794</u>
Earnings before Federal taxes on income	7,561,033	6,313,095
Federal taxes on income, estimated (note 3)	2,653,756	2,278,212
Net earnings	<u>4,907,277</u>	<u>4,034,883</u>
Retained earnings at beginning of year	19,791,075	18,739,405
	<u>24,698,352</u>	<u>22,774,288</u>
Less dividends paid:		
Stock dividend 3%	1,693,881	1,843,857
Cash dividends	1,173,475	1,139,356
	<u>2,867,356</u>	<u>2,983,213</u>
Retained earnings at end of year	<u>\$ 21,830,996</u>	<u>\$ 19,791,075</u>

See accompanying notes to financial statements.

Consolidated Statement of Capital in Excess of Par Value of Capital Stock

Year ended June 27, 1964 (with comparative figures for the year ended June 29, 1963)

	1964	1963
Balance at beginning of year.	\$ 10,444,760	\$ 8,657,959
Add:		
Excess over par value of 3% stock dividend charged to retained earnings	1,562,324	1,760,349
Excess over par value of proceeds from sales of capital stock to employees under the stock option plans	8,082	26,452
Balance at end of year.	<u>\$ 12,015,166</u>	<u>\$ 10,444,760</u>

See accompanying notes to financial statements.

WHOLLY-OWNED REALTY SUBSIDIARIES OF STOP & SHOP, INC.

Combined Balance Sheet

June 27, 1964 (with comparative figures as of June 29, 1963)

	1964	1963
Assets:		
Cash	\$ 18,373	\$ 18,793
Accounts receivable	104,300	133,392
Due from Stop & Shop, Inc.	2,681,763	605,654
Fixed assets, at cost:		
Land, buildings and improvements	48,702,643	48,461,075
Buildings and improvements on leased land	4,205,386	4,204,886
	<u>52,908,029</u>	<u>52,665,961</u>
Less accumulated depreciation and amortization	9,697,779	8,094,696
	<u>43,210,250</u>	<u>44,571,265</u>
Other assets	157,462	367,139
	<u>\$ 46,172,148</u>	<u>\$ 45,696,243</u>
Liabilities:		
Current installments of long-term debt	\$ 1,313,878	\$ 208,533
Accounts payable and accrued expenses	1,027,471	939,587
Federal taxes on income, estimated	272,123	196,547
Deferred Federal taxes on income	1,045,057	754,557
Long-term debt, less current installments above (note 4)	35,580,674	37,563,619
Stop & Shop, Inc.'s equity:		
Capital stock	71,820	72,820
Retained earnings	6,861,125	5,960,580
	<u>\$ 46,172,148</u>	<u>\$ 45,696,243</u>

See accompanying notes to financial statements.

Combined Statement of Earnings and Retained Earnings

Year ended June 27, 1964 (with comparative figures for year ended June 29, 1963)

Rental income, substantially all intercompany	\$ 7,177,829	\$ 6,790,790
Expenses and other deductions:		
Interest on mortgages	1,908,203	1,887,472
Operating and administrative expenses	1,794,878	1,610,528
Depreciation and amortization	1,767,495	1,719,557
	<u>5,470,576</u>	<u>5,217,557</u>
Earnings before Federal taxes on income	1,707,253	1,573,233
Federal taxes on income, estimated (note 3)	616,420	459,232
Net earnings for the year	1,090,833	1,114,001
Retained earnings at beginning of year	5,960,580	4,846,579
	<u>7,051,413</u>	<u>5,960,580</u>
Liquidating distribution to Stop & Shop, Inc.	190,288	—
Retained earnings at end of year	<u>\$ 6,861,125</u>	<u>\$ 5,960,580</u>

See accompanying notes to financial statements.

ACCOUNTANTS' REPORT

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
JOHN HANCOCK BUILDING
BOSTON, MASS. 02110

The Stockholders
Stop & Shop, Inc.

We have examined the consolidated balance sheet of Stop & Shop, Inc. and consolidated subsidiaries and the combined balance sheet of wholly-owned realty subsidiaries of Stop & Shop, Inc., as of June 27, 1964, and the related statements of earnings and retained earnings and capital in excess of par value of capital stock for the year then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheets and statements of earnings and retained earnings and capital in excess of par value of capital stock present fairly the consolidated financial position of Stop & Shop, Inc. and consolidated subsidiaries and the combined financial position of wholly-owned realty subsidiaries of Stop & Shop, Inc. at June 27, 1964, and the results of the related operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Boston, Mass.
August 21, 1964

NOTES TO FINANCIAL STATEMENTS

- (1) The consolidated financial statements include the accounts of the parent company and all its subsidiaries except its wholly-owned realty subsidiaries. The parent company's investment in these realty subsidiaries is included in the consolidated balance sheet at equity value, and consequently their net earnings for the year are included in consolidated net earnings and their undistributed earnings in consolidated retained earnings.

Financial statements for the combined realty subsidiaries are shown separately.

- (2) The following summary shows the source and use of funds on a consolidated basis for the company and all subsidiaries:

Funds provided:	1964
Net earnings.....	\$4,907,277
Less cash dividends on capital stock.....	1,173,475
	<u>\$3,733,802</u>
Used as follows:	
Excess of net expenditures for fixed assets over depreciation and amortization:	
Expenditures for fixed assets, net.....	\$5,356,552
Depreciation and amortization.....	5,253,481
	103,071
Reduction of long-term debt.....	1,982,945
Other, net.....	(64,144)
Addition to working capital.....	1,711,930
	<u>\$3,733,802</u>

- (3) The provision for Federal income taxes charged to consolidated earnings for the year ended June 27, 1964 has been reduced by \$547,000 of which \$325,000 represents 100% of the investment credit for the current year and \$222,000 the balance of deferred investment credits from prior years. The fixed assets in the realty subsidiaries do not qualify for the investment credit.

- (4) Long-term debt, less installments due within one year:

Stop & Shop, Inc. and Consolidated Subsidiaries	
Promissory notes, 5½%, payable \$500,000 annually commencing 1967, and the balance of \$4,000,000 in 1982.....	<u>\$11,500,000</u>

Wholly-Owned Realty Subsidiaries

Mortgage notes, 3½% to 6¼%, maturing over a maximum period of twenty years. Although not signed by the company or its subsidiaries, these notes are secured by land, buildings and improvements costing approximately \$52,900,000 and by assignments of intercompany lease agreements... \$35,580,674

Current installments of \$1,255,162 under the foregoing mortgage notes have been prepaid.

After June 26, 1965, the mortgage notes mature at an average annual rate of approximately \$2,400,000 through 1977 and thereafter at smaller varying amounts through 1984.

The terms of the agreement relating to the unsecured promissory notes, 5½%, contain restrictions on the payment of cash dividends and the purchase or retirement of the company's capital stock. At June 27, 1964 the consolidated retained earnings not so restricted amounted to approximately \$5,500,000.

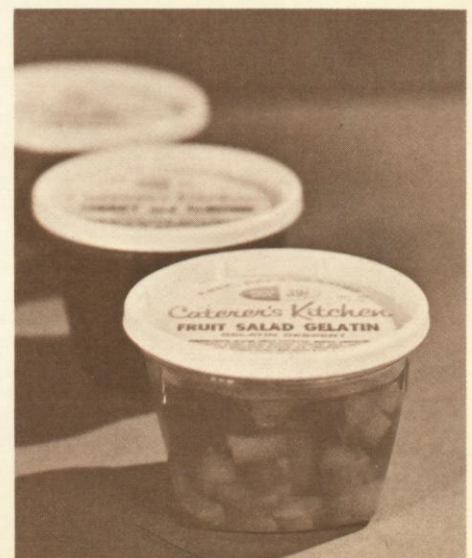
- (5) On August 11, 1964, subject to the approval of the shareholders, the Board of Directors voted to terminate the old Restricted Stock Option Plan (except for options granted) and substitute therefor a new Qualified Stock Option Plan for key employees under the applicable provisions of the Internal Revenue Code. The new plan provides that 50,000 shares be reserved for future stock options, that options be granted at not less than 100% of fair market value on the date of grant, and that the term of options be limited to five years.

Under the terms of the old Restricted Stock Option Plan, at June 27, 1964 there remained outstanding options granted to 20 officers and employees to purchase 44,411 shares at prices ranging from \$8.01 to \$22.79 per share. These options are exercisable over various periods extending to May 27, 1970. All options have been granted to principal shareholders at 110% of market value on dates of granting and at 95% in the cases of all other participants.

During the current year no options were granted. Options were exercised for 1,153 shares at the granting price of \$8.01 per share for a total of \$9,235 as compared with the total value of \$24,245 based on quoted market prices on dates of exercise of the options. The number of shares under option at June 27, 1964 and related prices per share have been adjusted for stock dividends and stock splits.

- (6) At June 27, 1964 the total minimum annual fixed rentals, exclusive of inter-company rentals, payable under leases expiring after three years, was approximately \$4,795,000, plus real estate taxes, insurance, etc., under certain leases. Leases covering about 35% of this amount expire within the next fifteen years and the balance by 1984.

What's cooking at our Commissary...



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